International Seabed Authority ISBA/21/A/6–ISBA/21/C/15

Assembly
Council

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Report of the Finance Committee

1. During the twenty-first session of the International Seabed Authority, the Finance Committee held five meetings, between 9 and 13 July 2015.

2. The following members of the Committee participated in the meetings during the twenty-first session: Frida Armas-Pfirter, Trecia Elliott, Francesca Graziani, Olivier Guyonvarch, Pavel Kavina, Duncan Muhumuza Laki, Olav Myklebust, Nicola Smith, Reinaldo Storani, David C. M. Wilkens and Shinichi Yamanaka.

3. The following members informed the Secretary-General that they would be unable to attend the session: Aleksey Bakanov and Changxue Chen.

4. The following members informed the Secretary-General that they had resigned: Vishnu Dutt Sharma and Han Thein Kyaw.

5. Following past practice, Ye Minn Thein participated in the meetings of the Finance Committee prior to his formal election by the Assembly for the remainder of the term of office of Han Thein Kyaw, while Koteswara Rao participated on 13 July, prior to his formal election by the Assembly for the remainder of the term of office of Vishnu Dutt Sharma.

6. The Committee re-elected Olav Myklebust as Chair and Duncan Muhumuza Laki as Vice-Chair.

7. The Committee encouraged all members to attend its meetings.

I. Agenda

8. The Committee discussed and adopted its agenda contained in document ISBA/21/FC/1.

II. Implementation of the budget and cost-saving measures

9. The Committee took note of the report on the budget performance for the financial period 2013-2014, and for 1 January 2015 to 31 May 2015 (ISBA/20/A/5-

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ISBA/20/C/10). The Committee requested and received clarification on a number of issues, including on the use of consultants.

10. The Committee expressed its appreciation to the Secretary-General on the efforts being made to effect savings in the budget of the Authority and requested him to continue those efforts and to submit a report on the same topic in 2016.

III. Audit report on the finances of the International Seabed Authority for 2014

11. The Committee considered the report of KPMG on the audit of the accounts of the Authority for the year 2014. The Committee took note of the report and the opinion of the auditors that the financial statements of the Authority give a true and fair view of the financial position of the International Seabed Authority as at 31 December 2014, and of its financial performance and cash flows for the year ended, in accordance with the financial regulations of the Authority and the United Nations System Accounting Standards.

12. The Committee commended the Secretary-General for the Authority's proper accounting records, as highlighted by the Auditors in their report.

13. In reviewing the financial statements for the year ended 31 December 2014, the Committee sought clarification on a number of items, including budget lines with overexpenditures and underexpenditures. The Committee requested that large items in the financial statements be more fully described to enhance transparency. The Committee was fully satisfied with the additional information provided by the Secretary-General.

IV. Appointment of an independent auditor for 2015 and 2016

14. In considering the appointment of an independent auditor for the financial period 2015-2016, the Committee considered the quality of the audits performed by KPMG in 2013 and 2014. After discussion, the Committee decided, in accordance with financial regulation, to recommend to the Assembly that KPMG be appointed for two more years to complete its four-year term.

V. Status of the International Seabed Authority Endowment Fund and Voluntary Trust Fund and related matters

15. The Committee took note of the balance of the Endowment Fund in the amount of US$ 3,468,750, as at 30 June 2015, including accrued interest of $13,212 intended to be utilized to support the participation of qualified scientists and technical personnel from developing countries in marine scientific research and approved programmes.

16. The Committee expressed its gratitude to Mexico for the contribution of $7,500 made on 4 September 2014 and to Tonga for the contribution of $1,000 made on 18 December 2014. The Committee also took note with appreciation of a pledge by China to contribute a further $20,000 to the Endowment Fund.

17. The Committee took note of the balance of the Voluntary Trust Fund in the amount of $225,462, as at 30 June 2015. The Committee expressed its gratitude to China for the contribution of $20,000 made on 7 July 2014 and to Japan for the contribution of $21,660 made on 19 September 2014.

18. The Committee reviewed document ISBA/21/FC/5 and expressed concern about the low rate of return of the Endowment Fund. It took note of the status of the Fund and the possible ways in which the income from it may be increased. Following discussions, the Committee decided not to draw upon any of the capital, but instead, recommended that the Secretary-General consult with the United Nations Joint Staff Pension Fund and other United Nations bodies, as well as an investment counsellor, on the steps that might be taken to generate a higher rate of return. The Committee requested the Secretary-General to report in 2016 on the status and outcome of those consultations and to make recommendations on the investment of the Endowment Fund.

19. The Committee reminded the Secretary-General of its request in 2014 that a report be prepared on the possibility, from a legal perspective, of considering advances from the Endowment Fund to the Voluntary Trust Fund as grants.

VI. Status of the Working Capital Fund

20. The Committee took note of the status of the Working Capital Fund, as at 30 June 2015, with advances of $559,601 out of a ceiling of $560,000.

21. The Committee noted that each member State's share of the Working Capital Fund does not correspond with the latest scale of assessment. As decided by the Committee in 2014, it will revisit this issue in the context of the next revision of the level of the Working Capital Fund.

VII. Status of Implementation of the International Public Sector Accounting Standards

22. The Committee commended the Secretary-General for the document on the status of the progress made towards the implementation by the Authority of the International Public Sector Accounting Standards by 1 January 2016 (ISBA/21/FC/9), and his efforts to implement those standards.

VIII. Proposal to enhance the presentation of the budget for the financial period 2017-2018 in the light of the International Public Sector Accounting Standards

23. The Committee discussed ways and methods to modernize the presentation of the budget so as to enhance transparency and strategic planning. The Committee considered the current budget format and the options presented in the document entitled "Proposal to enhance the budget presentation for the financial period 2017-2018 in the light of the International Public Sector Accounting Standards" (ISBA/21/FC/6) in its discussions.

24. Following discussions in the Committee, the Committee developed a new budget format, as contained in the annex. The new format would include two expenditure sections, namely: (a) the administrative section, and (b) the substantive programme section, which would comprise six programmes. The income section of the budget would remain as specified in the 2014 report of the Finance Committee showing gross income.

25. The six programmes covering the work of the Authority are:

(a) Development of the regulatory framework for activities in the Area;

(b) Protection of the marine environment;

(c) Management of contracts;

(d) Data management;

(e) Promotion and encouragement of marine scientific research in the Area;

(f) Outreach activities.

26. The budget would include a detailed description of the actions, priorities and objectives within each programme.

27. Within each of the six programmes, there would be subcategories, including:

(a) Consultants;

(b) External printing;

(c) Travel;

(d) Workshops.

28. The advantages of the new format would include more accountability and transparency with regard to the strategic direction of the Authority and enhanced strategic decision-making by it. Furthermore, this would enable more detailed reporting on the results achieved in each programme area. It is understood that the budget format will be kept under review and will evolve with time.

29. The Committee requested the Secretary-General to use the new budget format for the preparation of the budget proposal for the financial period 2017-2018. The narrative to the budget proposal should describe the programmes and provide explanations on the types of costs to be incurred by each programme, using subcategories, including those mentioned in paragraph 27 above.

IX. Status of implementation of the decision of the Assembly relating to annual overhead charges for contracts for exploration

30. The Committee considered document ISBA/21/FC/4, on the implementation of Assembly decision ISBA/19/A/12 on the annual overhead charge.

31. The Committee noted that, of the 14 exploration contracts that were entered into before 25 July 2013, 10 contractors had agreed to amend their contracts and to pay the overhead charges. The Committee also noted that, for 2016, it was anticipated that 18 of 22 contractors would pay the annual overhead charge.

32. The Committee noted with appreciation the progress and success of the Secretary-General in the negotiation on the overhead charges and encouraged him to continue his consultations with the remaining four contractors to ensure equitable burden-sharing among all contractors.

X. Proposed fee for processing an application for an extension of a contract for exploration

33. The Committee reviewed a detailed analysis, provided by the Secretary-General, of the estimated costs of processing applications for extensions of contracts for exploration, on the basis of the proposed procedures contained in the document entitled, "Procedures and criteria for the extension of an approved plan of work for exploration pursuant to section 1, paragraph 9, of the annex to the Agreement relating to the Implementation of Part XI of the United Nations Convention of the Law of the Sea of 10 December 1982" (ISBA/21/C/WP.1), and sought further clarification. After consideration and further discussion, the Committee determined that the estimated cost for processing an application for extension amounted to $67,000.

34. The Committee therefore decided to recommend to the Council that, in considering the procedures and criteria for the extension of an approved plan of work for exploration as recommended by the Legal and Technical Commission, the fee for processing an application for extension of a contract should be fixed at $67,000, and that paragraphs 4 to 6 of the draft procedures and criteria contained in document ISBA/21/C/WP.1 should be adopted as adjusted accordingly.

XI. Financial and budgetary implications of the proposed work programme for the development of regulations for exploitation of marine minerals

35. Following a presentation by the Chair of the Legal and Technical Commission on the development of a regulatory framework for mineral exploitation in the Area, the Committee considered that the implementation of the draft action plan would have significant financial implications for the next budget covering 2017-2018, and recalled accordingly, that a decision by the Council on the draft action plan would have to be reflected in the deliberations on that budget. The Committee noted that the Legal and Technical Commission would be preparing a fully costed plan and requested that it be available in sufficient time for it to be taken into account when the next budget proposal was prepared.

36. The Committee recommended that the Council and the Assembly request the Secretary-General to endeavour to allocate sufficient resources in the budget for 2015-2016 to the priority deliverables identified in the draft action plan and to report to the Committee on the progress made and the resources used.

XII. Other matters

37. The Committee considered the document entitled "New member of the International Seabed Authority" (ISBA/21/FC/8). The Committee recommended that the State of Palestine, which became a member of the Authority on 2 January 2015, pay the amounts shown below as its contributions to the general administrative budget of the Authority for 2015. Such contributions should be credited as miscellaneous income, in accordance with regulation 7.1 of the Authority's Financial Regulations.

New member State	*Date membership began*	*United Nations scale of assessment (percentage)*		*Adjusted International Seabed Authority scale (percentage)*		*Contributions to the general administrative budget (United States dollars)*		*Advances to the Working Capital Fund (United States dollars)*
		2015	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
State of Palestine	2 January 2015	0.0025	0.0025	0.01	0.01	578	578	–
Total						**578**	**578**	–

38. The Committee expressed its concern about the outstanding contributions from member States in arrears for two or more years in the period (1998-2015) in the amount of $297,649 and requested the Secretary-General, at his discretion, to continue his efforts to recover those amounts.

39. The Committee welcomed and appreciated the advance publication of its documents on the Authority's website and encouraged the Secretary-General to continue that practice.

XIII. Recommendations of the Finance Committee

40. In the light of the foregoing, the Committee recommends that the Council and the Assembly of the Authority:

(a) *Appoint KPMG* as independent auditor for 2015 and 2016;

(b) *Request* the Secretary-General to consult with the United Nations Joint Staff Pension Fund and other United Nations bodies, as well as an investment counsellor, on the steps that might be taken to generate a higher rate of return from the Endowment Fund and to report to the Committee in 2016 on the status and outcome of those consultations, and to make recommendations on the investment of the Endowment Fund;

(c) *Take note* of the new format to be used in presenting the budget of the Authority for 2017-2018;

(d) *Set* the fee for processing an application for extension of a contract at $67,000 and adopt paragraphs 4 to 6 of the draft procedures and criteria contained in document ISBA/21/C/WP.1, as adjusted, accordingly;

(e) *Request* the Secretary-General to endeavour to allocate sufficient resources in the budget for 2015-2016 to the priority deliverables identified in the draft action plan and to report to the Committee on the progress made and the resources;

(f) *Strongly encourage* those contractors that are still considering their position in relation to the annual overhead charge related to the administration and supervision of their contracts to accept the relevant amendments to the standard terms of contract in order to ensure equitable burden-sharing among all contractors;

(g) *Urge* the members of the Authority to pay their assessed contributions to the budget on time and in full;

(h) *Appeal once more* to the members of the Authority to pay outstanding contributions to the budget of the Authority from previous years as soon as possible and request the Secretary-General, at his discretion, to continue his efforts to recover those amounts;

(i) *Strongly encourage* members to make voluntary contributions to the Endowment Fund and Voluntary Trust Fund of the Authority.

Annex

2017-2018 budget format for expenditures

Section 1. Administrative expenditures
Subsection 1
Established posts
General temporary assistance
Overtime
Common staff costs
Communications
Training
Library books and supplies
Official hospitality
Acquisition of furniture and equipment
Supplies and materials
Miscellaneous services
Information technology
Audit fees
United Nations common system
Building management
Official travel (non-programme)
Total Subsection 1
Subsection 2
Conference services
Assembly
Council
Finance Committee
Legal and Technical Commission
Total Subsection 2
Total Section 1. Administrative expenditures
Section 2. Programme expenditures
2.1 Development of the regulatory framework for activities in the Area
Consultants
External printing
Travel
Workshops
Subtotal

2.2 Protection of the marine environment
Consultants
External printing
Travel
Workshops
Subtotal
2.3 Management of contracts
Consultants
External printing
Travel
Workshops
Subtotal
2.4 Data management
Consultants
External printing
Travel
Central data repository
Workshops
Subtotal
2.5 Promotion and encouragement of marine scientific research in the Area
Consultants
External printing
Travel
Workshops
Subtotal
2.6 Outreach activities
Consultants
External printing
Travel
Workshops
Subtotal
Total Section 2. Programme expenditures
Total Administrative and programme expenditures